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Tax Incentives for Foreign Direct Investments (FDI): Types and Who Should/Should Not Qualify in Tanzania

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Abstract: The paper addresses the question of tax incentives for Foreign Direct Investment (FDI). It reviews the various types of tax incentives that are available and that can potentially be granted to foreign investors by host economies. It further makes a recommendation on who should qualify for the various types of tax incentives offered in Tanzania and who should not. While such incentives may contribute towards increased inflow of FDI into the country, they may also lead to revenue loss for the Treasury. Some specific types of investments are recommended as appropriate qualifiers for the incentives and some as not.

Introduction

Different countries have being taking various approaches to attract FDI due to the assumed roles of FDI in these countries. These roles include, but are not limited to, possibility for increased government revenue mainly through taxation, employment creation, improved balance of payment by increasing exports and/or reducing imports, technology transfer, improved managerial and entrepreneurial skills, increased competitiveness in the market, and linkage with the rest of the economy.

Among the approaches taken by countries to attract more FDI include a general improvement in the investment environments in these countries like improvement of infrastructure, liberalisation of the economy and granting of various incentives, among them tax incentives.

The granting of tax incentives to attract more FDI is received with mixed feelings among different stakeholders. According to Bergsman (1999), many economists disdain tax incentives, seeing them as ineffective and a loss of revenue for the Treasury and expensive distortions that actually reduce the true value of output. Tax incentives cause distortion in factor or product markets. On the other hand most directors of foreign investment promotion agencies do like this and other incentives they come across and they are seeking to achieve the distortions above.

This work assumes that tax incentives may be good for a country. This is so if some conditions are fulfilled. First, the tax incentives must lead to an increased flow of FDI into that country by attracting FDI that would not come without the presence of the incentives. Second, these FDI should contribute to the country's development by offering returns to the country that more than offset (the returns) the foregone tax revenue in form of tax incentives granted to the investors.

When trying to find out who should qualify for the tax incentives in Tanzania therefore, the work will focus on some types of investments that would not come to Tanzania without the presence of the incentives, but have the potential of contributing positively to the development of the country. As for who should not qualify, a focus will be on those investments that would come in any circumstance (in this case the absence of tax incentives).

This paper review the tax incentives on FDI on Tanzania is organised as follows: Second section is a relatively short description of FDI, The third section discusses FDI incentives in general. The fourth section is on tax incentives followed by the fifth section on incentive's qualification criteria followed by summary and conclusion.

2. Foreign Direct Investments

FDI has been defined differently by different authorities.[1]The International Monetary Fund (IMF) defines FDI as an "investment made to acquire a lasting interest in a foreign enterprise with the purpose of having an effective voice in its management" Bjorvatn, (2000). In the context of Tanzania FDI refers to the flows of capital and personnel from abroad for investment in the country. The ownership of such capital can be either by a natural person or an institution such as a company registered outside the country. The shares owned by such a person or institution should be fifty percent (50%) of the total investment or more**.**

What seem to be a common denominator in the various definitions of FDI, is the fact that a foreign firm or individual must control a certain amount of shares (in most cases ten percent or more) of a domestic firm.

FDI is normally undertaken by Multinational Enterprises (MNEs)[2], which invest their normally huge capital in different nations. They can be market-seeking, efficiency-seeking or resource/ asset-seeking. They take either the form of new investments, also known as green field investments or the form of acquisitions of existing projects through mergers and acquisitions (M&A).

Firms are motivated by various aspects to choose FDI as a mode of entry to foreign markets[3]. These aspects are partly described in the much referred Dunning's OLI-theory. Dunning (1993) presents three conditions that do motivate firms to choose FDI as a mode of entry to foreign markets. These are ownership advantages (O), location advantages (L) and internalisation advantages (I).

FDI inflows to a country depend largely on the presence in that country, of a certain critical minimum of FDI determinants. The determinants are among the factors that give MNEs the confidence and interest to invest their massive and expensive capital in foreign markets. Among the FDI determinants that MNEs look for are the presence of economic, political and social stability; and rules regulating entry and operations of businesses. Others are standards of treatment of foreign affiliates; business facilitation (including, *inter-alia,* investment incentives and thereby tax incentives; market size, growth, structure and accessibility; raw materials, low cost but efficient labour force and physical infrastructure in form of ports, roads, power and telecommunication.

3. **FDI Incentives**

From the FDI determinants mentioned above, we can see that FDI incentives are among them. These are the benefits offered by host economies to foreign investors so as, combined with other FDI determinants, may help to attract more FDIs and/or retain those already present in a country.

The Tanzania Investment Act. 1997 (3) interprates incentives as " …tax relief and concessional tax rates which maybe accessed by an investor under the Income Tax Act, 1973, the Customs Tariff Act, 1976, the Sales Tax Act, 1976 and any other for the time being in force, and includes additional benefits that may be accessed by an investor under section 19 and 20;" *of this act* [4]. See the section that follow for such incentives.

Specific incentives may not be main determinants of a country's attractiveness to FDI. A country's general economic and political conditions, domestic market , natural and other resources may be more important than some specific incentives. However various incentives have been found to influence investments. They may either encourage investments generally or attract

[1] See for example UNCTAD's World Investment Report and Press Releases, various years at www.unctad.org.
[2] Also known as Transnational Corporations (TNCs) or simply multinationals. Both terms will be used to mean the same thing unless otherwise stated.
[3] Alternatives to FDI include export and such arms-length agreements like licensing, franchising and strategic partnerships.
[4] The words in italics are my own addition.

investments in selected sectors or geographical areas. Types of incentives and the eligibility of the same vary widely between countries.

3.1. Types of Incentives

There is a wide spectrum of FDI incentives. These include tax incentives, guarantee against arbitrary treatment in case of nationalisation, government provision of such utilities as water, power and communication at subsidised prices or free of cost; tariffs or quotas set for competing imports; reduction/elimination of import duties on inputs; interest rate subsidies; guarantee for loans and coverage for exchange rate risks; wage subsidies; training grants and relaxation of legal obligations towards employees**.**

3.2. Incentives Offered by Tanzania

Tanzania offers a variety of incentives. According to Tanzania Investment Centre (TIC, 1998), the incentives have been devised to compensate and reward investors for their entrepreneurship; to match the changing needs of the country; to channel investments in the direction most need for economic development and to ensure growth with social equity.

Section 19 and 20 of the Tanzania Investment Act 1997 referred above does not categorically mention the types of incentives offered by the country. These are more clearly mentioned in Investor' Guide to Tanzania 1998, which is published by the TIC. The incentives mentioned in the Investors' Guide to Tanzania 1998 (pp. 14-19) are mainly various tax rates for different sectors. For example the mining sector and export processing zones, have a 0% tax rate on the following ; custom duty on capital goods, sales tax on capital goods and withholding tax on interest.

The agricultural sector, air aviation, commercial building, commercial development and micro-finance banks, export oriented projects, geographical special development areas, human resources development, manufacturing, natural resources, rehabilitation and expansion, tourism and tour operations, transport and radio and television broadcasting enjoy a 0% tax rate on sales tax on capital goods and withholding tax on interest.

All the sectors mentioned above enjoy a 100% capital allowance deduction in the years of income. While all other sectors pay 5% custom duty on capital goods the mining sector and export processing zones enjoy a 0% rate. A 10% withholding tax on dividends is paid by all, except the export processing zones, in which case the rate is 0%. A 30% corporation tax is paid by all the sectors, except tourism and tour operations whose rate is 35% **.**

According to Investors' Guide to Tanzania- 1998 (pp. 16), The investment law allows for enhanced incentives in case of investments that are of strategic importance or are of significant impact on the economy[5].

The Tanzania Investor Roadmap, 1999 (pp.97-98) goes further than the Investors' Guide to Tanzania 1998, by mentioning some more incentives available to TIC registered companies. These include entitlement to employ five expatriate employees automatically. No skills requirements are attached to these five employees.

Another incentive offered is profit repatriation. Companies enjoy unconditional transferability of net profits or dividends; payment in respect to loan servicing where a foreign loan has been obtained; royalties, fees, and charges related to a technology transfer agreement; the remittance of proceeds if a business is liquidated; and emoluments and other benefits paid to foreign personnel in Tanzania employed by the firm.

Tanzania offers some sectoral incentives. The agricultural sector enjoys a 20% capital deduction for clearing land; installing power or water; building farmhouses or buildings for

[5] The source does not give examples of such investments.

processing, storage, or livestock accommodation; and constructing labour quarters, drains, fences, windbreaks, or other works necessary for proper operation of a farm.

The mining sector enjoys 100% capital deductions for companies seeking specified minerals, including copper, coal, gold, lime, magnesium, bentonite, magnesite, meerschaum, mica, tin, tungsten, vermiculate, nickel, cobalt, platinum, kaolin, and zink. Companies prospecting for other minerals receive a 40% capital deduction in the first year with a 10% deduction for the following six years. Qualifying activities include prospecting and testing deposits, purchasing the rights to deposits, acquiring machinery and buildings that would have little or no value on cessation of mining, and general administration and management prior to production.

Tourism receives a capital deduction of 20% on hotels and installed machinery. A 6% deduction is allowed for buildings used as hotels.

3.3. Eligibility Criteria for Incentives

Eligibility criteria for incentives differ between countries. Among the possible eligibility criteria include the size, nature and importance of the investment; conformity to a country's development plans; employment effects; use of domestic inputs also known as local content requirement; export performance of the investment; location of investment in designated geographical areas or in an Export Processing Zone (EPZ).

The incentives may depend on the type of the investment a country wants to attract, history, politics and the general competitiveness of the country as a potential destination for FDI. A country with a lot of attractions for investors, may not need to employ as many incentives to attract and/or retain investors as one without.

4. Eligibility Criteria in Tanzania

Incentives in Tanzania are granted to holders of Certificate of Incentives issued by TIC .Other approved investors too are eligible. The qualifying threshold for foreign investors is US$ 300,000 , down from US$ 500,000 in 1996. Local investors face a threshold of US$ 100, 000. Investment in rehabilitation should exceed US$ 250,000 for foreign investors (and joint ventures) and US$50,000 for local investors.

4.1. Tax Incentives

Tax incentives can mean many things. It can mean tax reduction intended to encourage business operations, FDI being one of them. They are special provisions intended to encourage certain kinds of behaviour in response to tax benefits. It can also mean any tax provision which include certain behaviour because, objectively and irrespective of the original rationale of the provisions this behaviour has more favourable tax consequences than the alternative forms of conduct.

4.2. Types of Tax Incentives

Tax incentives are of many types, some of which will be presented in what follows.

Tax holidays

Probably the most known and widespread tax incentive is tax holidays. These are mainly targeted to new firms and may not be available to existing operations. They are more linked to the establishment of enterprises than to the level of investment. New firms are allowed a period of time after some initial point when they are relieved from the burden of income taxation. The period can be extended to a subsequent period of taxation at a reduced rate of tax.

Businesses can start enjoying tax holidays at different times of investments' life. It can be when the production starts; the first year of profit; first year of firms' positive cumulative profit on its operations. For large projects with huge start-up costs, tax holidays, which start, when production occurs may actually increase the tax paid over the life of the project. This therefore, becomes a disincentive to invest. If losses are experienced in the holiday period they may not be allowed to be carried forward out of the holiday period. Therefore, tax holidays may occur when no taxes would have been paid in any event and taxes may be increased following the holiday because no losses are available to offset the profits.

Firms and projects which make substantial profits in the early years of operation potentially enjoy tax holidays. These include the trade sector, and short-term construction or service sector in real estate; restaurants; hotels and short-term market exploitation firms. Major capital intensive projects are not likely to benefit from this incentive, as they do not normally make profits in the early years of operation.

For tax holidays, revenue impact is tied to the degree of new activity. Therefore revenue impact is relatively low in the early years of the program and grows over time as more firms become eligible.

Among the problems that this incentive present is that it can be used to shelter income (from existing domestic operations) from taxation through transfer pricing and the transfer of operations from existing firms to new ones that qualify for the holidays.

Investment allowances and tax credits

This is a tax relief based upon the value of expenditure on qualifying investments. They provide tax benefits that are over and above the depreciation allowed for the asset. A tax allowance is used to reduce the taxable income of the firm. A tax credit is used to reduce directly the amount of taxes to be paid.

This type of tax incentive presents some problems. It is difficulty to define the eligible expenditures and to choose the rate of allowance or credit. It is also a problem to set a restriction on their use. This is of little benefits for the quick profit types of firms, which can take best advantage on tax holidays. Tax allowances are of greatest benefit for firms within income from existing operations. Firms with low income or start-up firms *cannot* begin to take advantage of the incentive until income is earned. Investment allowance is usually made in the year of acquisition or the first year of use of an asset. It does not reduce the basis for write-off in later years. It is common in connection with different kinds of capital expenditure, particularly in respect to industrial undertakings. It reduces the taxable income.

Investment credit is tied directly to fixed investments. A calculation of a percentage of investment expenditure is made and this is credited against tax. This type of tax incentive has a similar revenue impact as tax holidays. (See above).

Timing differences.

This can arise either through the acceleration of deductions or the deferral of the recognition of income. According to Viherkentta (1991), accelerated depreciation is the most typical incentive tied to initial investments. Among the examples of accelerated deductions include accelerated depreciation where the cost of an asset acquired may be written-off at a rate that is faster than the economic rate of depreciation. The depreciation schedules here, exceed economic depreciation. This takes place in form of shorter period of depreciation or in form of special deduction in the first year. This may be applied to buildings; plants; machinery and equipment.

Accelerated deduction confers a timing benefit only. The revenue cost falls over time because in future years the tax benefits from further new investments are in part offset by the reduced deductions on the old investment. The carry-forward of deductions by firms, which can not fully utilise investment allowances and accelerated deductions, can lead to considerable growth in the revenue cost over time. Accelerated depreciation may take several forms. It take the form of free depreciation or the form of initial allowance. In the case of the latter, exceptionally large

depreciation allowance is made when a qualifying asset is acquired or put to use. It decreases the depreciable basis for later years.

General tax reductions

In this case, the tax liability of a firm is not entirely eliminated, (as opposed to the case of tax holidays). The benefit is extended beyond new enterprises to include income from existing operations and the benefit is not time-limited. When designing this type of incentive, one is likely to be faced with the problem of identifying qualifying income.

Non-income tax –based incentives

These include taxes on business inputs. For example border charges (custom duties, turn over taxes), taxes on imported capital equipment and social security taxes on expatriate wages and salaries. When investors are relieved from these taxes**,** then they are receiving incentives.

Tax incentives in Tanzania

Tax incentives granted in Tanzania have been mentioned earlier in this paper see page 4. On top of these incentives come three types of wear and tear deductions allowed by Tanzania. Tractors, combines, and self-propelled heavy equipment qualify for class 1 deductions and earn a 37.5% annual deduction. Light self-propelled equipment is entitled to a class 2 deduction of 25% annually. Class 3 deductions amount to 12.5% annually on office furniture**.** One can match the different types of tax incentives with those granted in Tanzania to see if there are any disparities.

5. Who should/should not qualify for tax incentives in Tanzania?

It is a well-known fact that tax incentives directly reduce revenue to the Treasury. These incentives therefore are costs to the government. The need to always increase government revenues, mainly through taxation, is no where more important than in the developing countries like Tanzania[6]. Tax incentives for FDI therefore, should only be justified if the returns of these investments to the country at least more than compensate the tax revenue lost in form of granted tax incentives.

The need to identify who should/should not qualify for the tax incentives can not be overemphasised. Such an identification, especially of the latter (who should not qualify) can help the government to avoid loosing the much-needed tax revenues unnecessarily. This section attempts to make such an identification.

It is not easy to make a perfect, universally agreed upon and non-controversial identification. But given its weight in gold, an attempt is made to identify some types of investments that, according to the author, should/should not qualifies for the tax incentives in Tanzania.

5.1. Who should not qualify

The current qualifying threshold for tax incentives for FDI in Tanzania is US$ 300000. It is the interpretation of the author that any FDI of this size qualifies for the incentives. This work recommends that some investments should not qualify even if they meet the above threshold. The threshold alone does not guarantee that such FDI will at least more that offset the costs of tax incentives. Some of the investments that should not qualify are presented below.

Given the fact that tax incentives are costs to the government due to the lost revenue, one could suggest that all tax incentives be abolished. In essence the main aim of taxation as a fiscal policy

[6] Tanzania has experienced deficits in several budgets. For 1995/96, 1996/97 and 1997/98 budgets for example the deficit (in million shillings, year ending 30 June) was 147,600; 66,600 and 146,100 respectively . The figures are computed by the author from Africa South of the Sahara 1999 (pp.1100).

instrument is to collect revenue for the government. Taxation's main goal is not to attract FDI, although a policy instrument may have multiple purposes. But due to some factors like pressure from MNEs and tax competition with other countries competing for FDI , granting of tax incentives becomes inevitable.

Hypothetically, a country could abolish all the tax incentives and instead use the tax revenues thus obtained to create more attractive environment for FDI. Tax revenue could be used to provide services and improve infrastructure and utilities that are likely to attract more FDI. Tanzania should concentrate on removing aspects of the tax system which constitute impediments to FDI rather than try to develop and design tax incentives to attract it. These aspects may include the overall tax law, level of tax burden, transparency of the tax system, statutory tax rates, the tax base and non-income taxes that are payable even if a company is not making profit.

If tax incentives do not attract additional investments they represent nothing but a revenue loss to the government. Much so if they attract additional investments and benefits from these investments do not outweigh the cost of the incentives[7]. These investments therefore should not qualify for the incentives, and vice versa. Hereunder follows some investments that should not qualify for tax incentives in Tanzania.

Investments that would have come to the country in any event (in absence of tax incentives for example) should not qualify. In this case it is the investors that are disparate not the government. For example if some investors would like to invest in Mount Kilimanjaro, there is no need to grant them incentives if it turns out that this is the only possible location for that type of the investment.

Investments in natural resource extraction or other rent-generating activities do no need to be attracted by tax incentives. If Tanzania can create a reasonable tax environment these investments should not qualify for tax incentives. For a country endowed with such unique natural resources like Tanzania, investments in most natural resource extraction sectors are likely to flow in without tax incentives. Therefore all the incentives granted to the mining sector in Tanzania may represent a mere loss of government revenue. When one looks at the extent of the presence of mining MNEs in such conflict zones like Angola and Sierra Leone it is obvious that mining is an attractive niche to most countries, and mining MNEs will invest in them at any event[8]. Therefore mining companies should not qualify for tax incentives in Tanzania. They are likely to come at any event, assuming that they bear a reasonable tax burden.

Investments that are aiming at selling in the Tanzania's domestic market need not qualify for tax incentives. If the investors have to locate within Tanzania for the aim of supplying the market there, tax incentives for them would be a direct loss to the Treasury. It may be difficulty to properly identify such investments. Among the ways to solve this problem would be a requirement for the investors applying to locate in Tanzania to state their aimed market. When the investor is disparate to sell a product in the Tanzanian market therefore[9], he should not qualify for the tax incentives.

Foot-loose short-term investments too should not qualify for tax incentives generally, and tax holidays in particular . Such investments include the quick-profit business such as in the trade sector, restaurants and construction. These investments are very dynamic. If affected by any disturbance at all, they may leave to another destination(country). Alternatively they may form a new company after the holiday expires because tax holidays reward formation of new companies. Foot-loose short-term investments are likely to come in the country irrespective of tax incentives. Short-term profits associated with them should be enough to attract the investment to the country.

[7] It can be difficulty to give a pecuniary value of FDI benefits. Not all such benefits can assume monetary value. It therefore becomes difficulty to compare incentive costs and FDI benefits.

[8] Maybe unless there is international pressure against the sell of these minerals as the case of the Sierra Leone's "conflict diamond".

[9] A hypothetical product that can only be- made and consumed in Tanzania can be thought of.

Another type of investment that should not qualify for tax incentives are low cost assembly plants that are highly mobile. These can be mostly affected by tax holidays. They are likely to move to new jurisdiction to take the advantage of tax holidays there where these expire on the former location. Here it is seen that the factor that made the investment responsive to the incentive also acted to limit the benefit to the country from the investment.

Fictive FDI should not qualify for tax incentives. These are FDI created to carry on what is in fact a domestically owned business. This can happen by transferring funds from a domestic enterprise to a company incorporated offshore which in turn re-invests in the country as if it were a foreign-owned company. This can look as a new company . It starts to enjoy incentives like tax holidays, investment allowances and accelerated deduction that are mainly associated with new investment. It is very difficulty for tax authorities to detect fictive FDI.

Some special purpose incentives should not be given to some investments. For example incentives to employment creation, regional development or special activities like transfer of technology for that matter that would have occurred in any event should not be granted.

Tanzania grants tax incentives for Export Processing Zones (EPZ). But the granting of tax incentives for these investments may run contrary to the General Agreement on Trade and Tariff (GATT) . This might invite countervailing measures that can negate any advantages obtained from the establishment of the EPZ. When this is likely to occur, these investments in EPZ should not qualify for tax incentives.

To sum up on who should not qualify for Tax incentives in Tanzania, it can be said that an extreme suggestion is that all the tax incentives should be abolished. No investment should qualify for them. This is because the effectiveness of these incentives is questionable and it is clear that they are a cost to the government. But due to some factors like tax competition between countries, pressure from MNEs and the possibility that the incentives may attract more FDI, Tanzania is obliged to grant some tax incentives. Investments that would come in any event should not qualify either. Also the investments that can not more that compensate the cost of the tax incentives should not qualify.

5.2. Who should qualify

Now the attention is turned to who should qualify for tax incentives in Tanzania. The current qualifying criteria for tax incentives in Tanzania is based on nothing but the size of the investment. The qualifying threshold for FDI is currently US$300,000. To the best of the author’s knowledge this is the only qualifying criteria for tax incentives in Tanzania.

The above qualifying criteria for tax incentives in Tanzania is not enough. Some investments that do not meet the threshold may be of more importance to the nation than those that meet it. Qualifying criteria therefore, should go beyond the pecuniary size of the investment. In general terms, all the investments that would not come to Tanzania without the tax incentives should qualify. But they must at least more than compensate the cost of tax incentives . Some of such investments are presented below.

In Tanzania, like many other developing countries, conditions required for efficient market have not yet developed. There is still some state control of firms, rudimentary capital markets, imperfect basic information on market possibilities and underdeveloped commercial and legal infrastructure. In these conditions some FDI have the potential of creating and training domestic agents on how to operate in market economy. Investments that are likely to lead towards this end should qualify for the incentives. These are the ones that, *inter-alia*, are willing to participate in empowering the local population through training and re-training. Benefits from such investments to the nation are likely to be above and beyond the private returns.

Investments that are likely to contribute towards some special national desires should qualify for tax incentives. These may be particularly desirable activities or projects that would not have occurred without the incentives. Some of the ways in which this can occur are discussed below.

Some investments may potentially develop low-growth areas in the country. These are designated regions. They are usually more remote, economically less developed and may have lower employment rates than the rest of the country. Investments that are likely to locate in these areas when incentives are linked to these regions should qualify. These investments are expected to generate more activities in such regions if they are granted special tax incentives. For example some investments may be willing to locate in Dodoma, Kigoma or some other low growth areas in Tanzania if and only if special tax incentives are linked to these areas[10]. These investments then should qualify for tax incentives.

Some investments are likely to contribute towards employment creation. They should qualify for tax incentives for job creation. These incentives may be linked with regional policies, seeking to attract FDI in areas of high unemployment. In this category of investments one can include those that promote establishment of labour intensive industries[11] or employment of particular categories of workers such as young persons, the disabled or the long-term unemployed. The importance of employing young people especially, can not be over-emphasised. This group can be a timed-bomb if unemployed, especially in urban areas like Dar-es-salaam where they may be participating in criminal acts. If this employment will happen only in the presence of tax incentives, then the investments concerned should qualify for them.

Tax incentives may be crucial in attracting high-technology industries and research and development (R&D) activities. These are likely to lead to technology transfer in the country. Investments that are dependent on tax incentives to do so should qualify for them. High-technology industries and knowledge-creating activities like R&D in Tanzania are of vital importance for development in this era of science and technology. Authorities granting tax incentives however, will be likely to face problems of determining what technology is high-tech, whether it is appropriate to Tanzania and is really transferred to the local population. It might also be difficulty to precisely define what constitutes R&D activities.

Other investments that should qualify for the tax incentives in Tanzania include those that are likely to be linked with the rest of the economy. These are those that, *inter-alia*, meet some local-content requirement in that they use some raw materials available locally in the country.

6. Summary conclusions and Policy recommendations

In this work it has been found that Tanzania grants a relatively generous package of tax incentives for foreign investors. The effectiveness of the incentives is questionable, while it is a naked truth that the incentives are costs to the government. They represent lost government revenues. This calls for a need to re-consider which types of foreign direct investment (FDI) should qualify for the incentives and which should not**.**

It is recommended that only those investments that would not come to Tanzania in the absence of tax incentives should qualify. But returns from these FDI to the nation must more than offset the costs of the tax incentives, seen in terms of lost government revenue. Those investments that do not qualify the two conditions simultaneously should not qualify.

Tanzania should develop new qualifying criteria for its tax incentives for FDI. The criteria should go beyond the monetary size of the investment. Broader non-monetary criteria should also be used in determining who should or should not qualify for the tax incentives. Basing the qualifying criteria for tax incentives on the monetary value of the FDI only puts the country at a great risk of loosing the badly needed tax revenues.

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[10] Norway's special tax incentives for businesses locating in its remote area of Svalbard can illustrate the point.

[11] It is an undeniable fact that Tanzania has a huge supply of unskilled labour that can be employed in most labour-intensive industries after receiving some minimum training.

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